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CanadaWest FOUNDATION

Our Vision
A dynamic and prosperous West in a strong Canada.

Our Mission
A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces and all Canadians.

CURRENTS Western Canada's Monthly Economic Bulletin

Vol. 2009, No. 2 a CanadaWest Foundation publication

Monthly Economic Highlights

Alberta and Saskatchewan were among the few employment bright spots as recession signs became more ominous with Statistics Canada's release of job numbers for January. National employment declined by 129,000 (or -0.8%), a monthly drop larger than at any time during the last two previous economic downturns.

BC was hit the hardest: 35,000 jobs were lost (-1.5%) and the unemployment rate rose sharply from 5.3% to 6.1%, a level not seen in nearly four years.

Manitoba lost 1,900 jobs (-0.3%), the largest decline in five months. Alberta employment edged up by 0.2% following two monthly setbacks. Saskatchewan's job level rose 0.3% after remaining essentially unchanged for three months.

In December, housing starts declined 0.4% Canada-wide. However, the signals across the West were mixed, with a 12.3% surge in Manitoba and a 28.8% drop in Saskatchewan.

Consumer Price inflation for December was 1.2% nationally, the smallest increase since January 2007; however, inflation was higher than the national average in three of the four western provinces (with BC equal to the average).

In November, retail sales declined all through the West. BC sales dropped 3.1% and have been trending down since July. Wholesale trade was lower across the region, with Saskatchewan sales falling the most (-2.1%).

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,268	2,026	522	607	16,982	January
% change	-1.5	0.2	0.3	-0.3	-0.8	
Unemployment rate (%)	6.1	4.4	4.1	4.6	7.2	January
Participation rate (%)	65.7	74.9	70.2	69.5	67.4	January
Average weekly earnings ($)	780.47	901.12	770.06	725.17	804.58	November
% change	0.5	1.7	0.8	0.0	0.4	
Inflation						
Consumer Price Index (%)*	1.2	1.9	2.6	1.9	1.2	December
Economic Activity						
Housing starts (000s)**	23.1	20.0	4.7	6.4	172.2	December
% change	8.5	-2.4	-28.8	12.3	-0.4	
Retail trade ($M)	4,543	5,035	1,222	1,262	34,936	November
% change	-3.1	-1.6	-0.4	-1.0	-2.4	
Wholesale trade ($M)	4,413	5,972	1,763	1,029	44,416	November
% change	-1.3	-1.9	-2.1	-1.6	-1.6	
Manufacturing sales ($M)	3,278	5,484	1,044	1,370	48,414	November
% change	-3.6	-8.8	-0.3	-3.1	-6.4	

** 12-month change, unadjusted. ** Annual rate. Unless otherwise noted, data are seasonally adjusted and percent change is from previous period.*
Source: Statistics Canada, Canada Mortgage and Housing Corporation.

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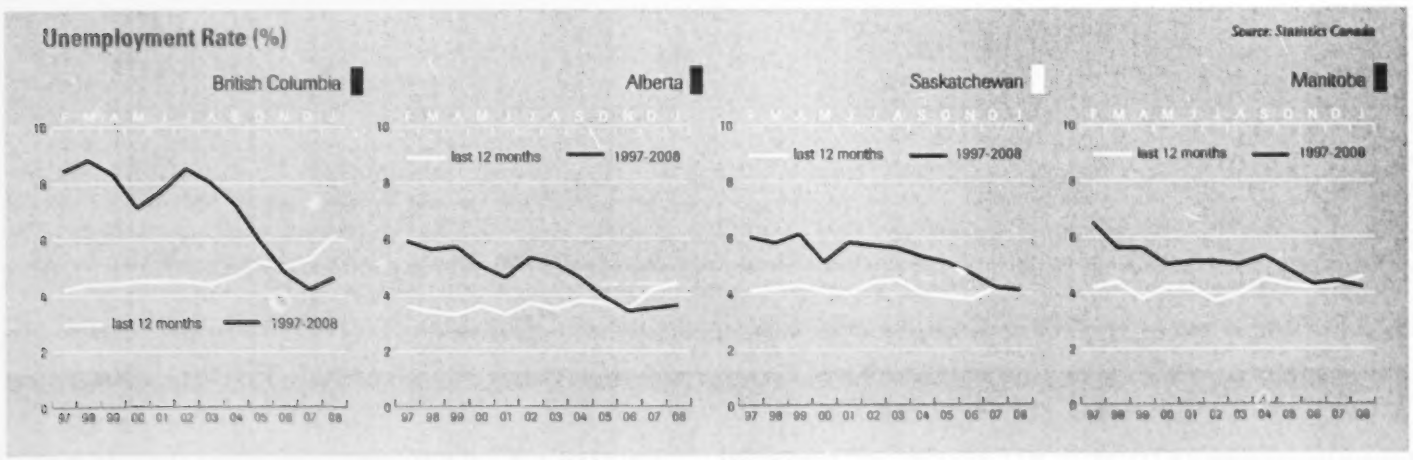

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Did you know?

- The top three overseas destinations for Canadians are the United Kingdom, France and Cuba.
- In 1911 Calgary had 25 apartment houses, a number equal to Toronto, Ottawa and Montreal combined.
- Canada's Inuit population grew 26% between 1996 and 2006, three times faster than the non-Aboriginal population (8%).
- Potash was first found in Saskatchewan in 1942 but water-related problems made commercial production impossible until 1962.
- Half of all phone connections in Canada are now wireless.
- The Bridge of 23 Camels in Lillooet, BC, is named after a failed experiment to replace mules in 1862 during the Gold Rush.

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MONTHLY FEATURE

JOB GROWTH IN 2008:
Some Economic Perspective

While job losses are a concern all across Canada (like everywhere else in the world!) employment in western Canada is still at a *relatively* high level—thanks primarily to vigorous growth over the last number of years, including 2008.

According to 2008 labour data from Statistics Canada, about 123,000 new jobs emerged in the West last year, which was almost half of the total number of jobs created for the entire country. In fact, job creation in the West has been stronger than the national average in terms of percent growth since 2004. Full-time employment in the region grew by 2.3% last year, compared to only 0.8% for the rest of the country. Under most economic circumstances, these would be encouraging data.

Unfortunately, the last few months have taken the shine off what would otherwise be seen as a good news story for the West. Instead, 2008 will mostly be remembered as the beginning of a global economic downturn. Nonetheless, there were still a few positive stories to tell in each of the western provinces.

British Columbia – In 2008, employment levels in B.C. increased by 2.1%, or 48,000 jobs, slowing down from 3.2% in 2007. It was the seventh consecutive year that B.C. enjoyed job growth of over 2%. The province's construction sector had another strong year, creating 23,900 new jobs; however, the province struggled in youth employment (15 to 24 years old), creating only 500 jobs for this demographic group. B.C. also lost 17,700 jobs in its manufacturing sector last year.

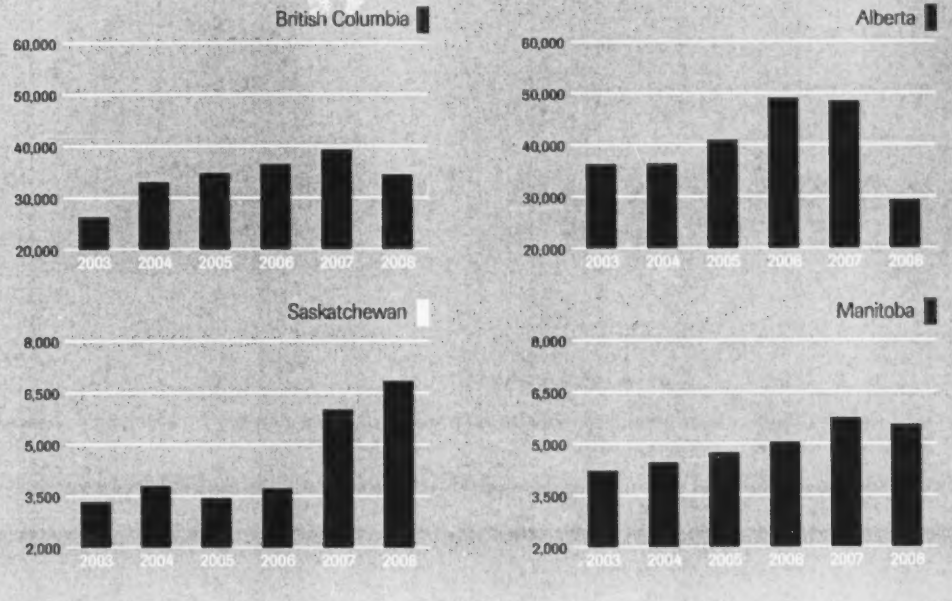
BEHIND THE NUMBERS

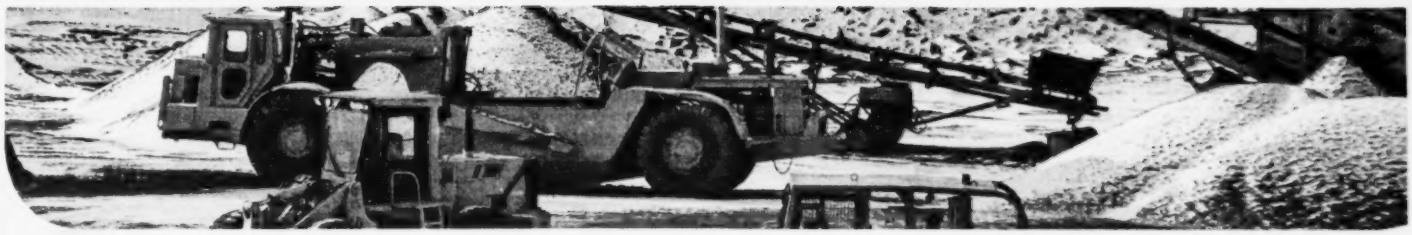
Housing starts in the West took a hard hit in 2008 after a period of steady growth. Starts for the four provinces combined fell nearly 25%, the first decline in eight years. After a modest slowdown in 2007, Alberta housing starts dropped 39.7% in 2008 as they fell below the level of 30,000 units for the first time since 2001. This followed strong growth in both 2005 and 2006.

Housing starts were also lower in B.C. (-12.4%) and Manitoba (-3.5%). Only Saskatchewan managed to buck the regional trend in 2008 with a 13.4% advance after a phenomenal 61.7% in 2007.

Housing Starts, 2003-2008

Source: Canada Mortgage and Housing Corporation



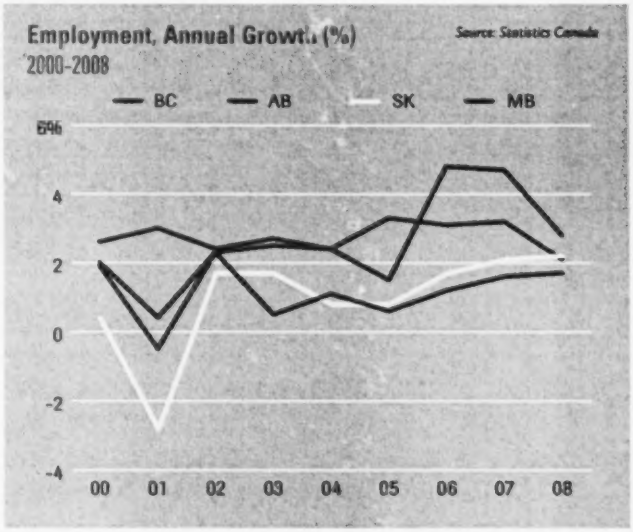


Alberta – Alberta created 53,900 jobs in 2008, an increase of 2.8%. The province led job growth in the West for the third consecutive year, albeit at a much slower rate than in 2007 (+4.7%) and 2006 (+4.8%). Almost half of the new jobs created in Alberta were in the province's important trade sector (retail and wholesale). Also noteworthy in 2008 was the 17,900 new jobs created in the professional services sector.

Saskatchewan – Employment levels in Saskatchewan increased by 10,900 jobs in 2008, representing a robust growth of 2.2%. This is a slight increase from the 2.1% growth in 2007. Employment growth was led by the surging construction sector, responsible for 4,700 new jobs last year. The natural resources sector also provided 3,100 new jobs for the province in 2008. Full-time job creation reached 3.2%, the highest rate in the West, marking the first time Saskatchewan led the region in full-time employment growth since 1994.

Manitoba – About 10,200 jobs were created in Manitoba in 2008. Employment grew 1.7%, in line with an increase of 1.6% in 2007. Last year, the province's public sector employment grew by 4.0%, or 6,100 new jobs. Looking at specific industries, Manitoba's construction sector was responsible for creating 3,800 new jobs, while the health care and social assistance sector saw 3,200 new jobs produced last year. Meanwhile, the manufacturing sector lost 1,900 jobs, following a 6.0% surge in 2007.

Looking forward, strong construction job growth in 2008 across the West gives reason to believe that the construction-related stimulus measures introduced in the most recent federal Budget will have a positive mitigating factor for 2009. These bright spots, however, will likely be few and far between as job losses should be expected in many other sectors (including manufacturing) in 2009 due to lower US demand for our exports.



Industry Spotlight: Wireless Telecommunications

During the past two decades the growth of Calgary's wireless and telecommunications sector has been impressive. The birth of Calgary's wireless industry was spurred by the need for Alberta's oil and gas sector to communicate easily across the province. A partnership between the energy industry and government leaders led to the creation of University of Calgary's GPS/Geomatics Engineering Department, and Novatel Communications Ltd., which constructed the first North American cellular telephone network in 1983 and was the first company to market handheld devices.

Calgary's wireless and telecommunications community is supported by WiTec Alberta, a non-profit industry association established in April 2004. WiTec Alberta assists local companies and organizations to market their technologies locally and around the world. WiTec holds an annual conference called "WiTec Connections" that provides an opportunity for the wireless community to network with leaders in wireless solutions, and develop new business relationships.

Major wireless employers in Calgary include Novatel Wireless Inc., Shaw Communications, Telus Mobility, and General Dynamics Canada Ltd. (specialized for defence and public security markets).

photo credit: General Dynamics Canada Ltd.

General Dynamics Canada integrates different radio types for military customers.

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OPINION

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Giant Tortoises Going in Circles

by Jacques Marcil, Senior Economist

The US auto sector (and by extension, the Canadian one) needs help. Its main problems are high costs, lower worldwide and domestic demand for its products, and a rigid production system that makes it very hard to quickly switch production to more popular models.

Why did the North American auto industry end up in this situation? Some analysts say that North America is an isolated environment where the auto industry faced exceptional circumstances which led it to develop separately from its competitors elsewhere in the world. They named this the "Galapagos Syndrome."

What we still call the "Big Three" is an anomaly akin to the giant turtles of the Galapagos Islands that Charles Darwin discovered in the 1830s. Cut off from the rest of the world, those massive reptiles evolved at their own pace but could not have survived had their ecosystem been in contact with other ones.

Similarly, the Big Three developed separately from their competitors in Europe and Asia, protected somewhat artificially by large local demand sustained by a vast empty continent, a bias towards bigger cars and comparatively low gasoline prices. As a result, most of their car models were gas-guzzlers ill-fitted for the world market and which are now hard to sell even in North America.

Going back to gasoline prices, it is a well-known fact that gasoline in North America is much cheaper than in Europe. It is less well-known that, when taxes are excluded, gasoline prices in many European countries are not that high after all. For instance, in the UK, the price of gasoline at the pump excluding taxes is only 9% higher than in the United States. However, the UK price including taxes is almost three times the US price, or 195% higher to be exact. That's a lot of taxes. (As an aside, the price for gasoline in Canada including taxes is 35% higher than in the US.)

In other words, when it comes to the total price of gasoline, the large difference between the two continents is really just a policy issue: each government applies taxes at the level its constituents are ready to pay. But why would British car owners (and German or French ones) willfully decide to pay such high taxes year after year? If Europeans were dissatisfied with the level of their gasoline taxes, they would obviously vote their governments out of office and yet, they don't. Maybe they get something in return that they are happy about.

One doesn't even have to visit Europe to know how well-developed public transit is over there. For instance, their inter-city trains offer reasonable fares, good service and extensive networks. We North Americans are embarrassed when visitors from abroad discover the pitiful condition of our own passenger train systems. Can we directly connect the quality of Europe's public transit infrastructure with the level of the gasoline taxes paid over there? While this is a bit of a leap, the evidence is strong.

From a broad perspective, the transportation picture is clear: while Europeans pay more and get more, Americans pay less and get less. That arrangement would be a fair proposal if it didn't generate a situation in the US where lower-taxed car buyers choose large cars and shun taking the train. Limited train options, in turn, create more demand for US-made large cars, and so on. Just like giant Galapagos tortoises, the Big Three carmakers have a long potential life, but they can't go in circles forever.

Where does Canada fit in this? Our gasoline taxes are higher than in the US but far below the ones observed in Europe. Conversely, our transit system is a bit better than south of the border, but not much. While it remains important to support auto manufacturing jobs in the short run, eventually we should choose which transportation model we want to adopt in the long run. My vote goes to the European one.